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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
Forward-Looking Mechanism for High-Cost Support for Non-Rural LECs	)	CC Docket No. 97-160 DA 98-848

REPLY COMMENTS OF THE AD HOC TELECOMMUNICATIONS USERS COMMITTEE

The Ad Hoc Telecommunications Users Committee (hereinafter the "Committee" or "Ad Hoc") submits its Reply Comments in response to the comments that have been filed on the May 4, 1998 *Public Notice* in this proceeding, DA 98-848.[1]

In that *Public Notice*, the Commission sought to augment its already extensive record on the implementation of a forward-looking economic cost mechanism for universal service support. Specifically, the Commission sought comment on the appropriate input values for use in a forward-looking cost proxy model and the level of revenues that should be included in a revenue benchmark. With respect to the revenue benchmark, the Commission asked parties to specify the amount of access and intraLATA toll revenues that should

[1] *Public Notice, Common Carrier Bureau Requests Further Comment on Selected Issues Regarding the Forward-Looking Economic Cost Mechanism for Universal Service Support,* CC Docket Nos. 96-45 and 97-160, DA 98-848, (rel. May 4, 1998) ("*Public Notice*"). Order extending deadline for

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be included in the benchmark and whether there should be some accounting for the costs of access and/or toll services that are not presently included in the results generated by the benchmark cost models - either through a reduction in the revenue benchmark or an increase in estimated forward-looking incremental costs. Also, as a further means of helping it determine the appropriate level for the revenue benchmark, the Commission encouraged parties to provide information about the various services that can be provided over the network that the universal service mechanism is designed to support.

In its initial Comments on the Commission's *Public Notice*, the Ad Hoc Committee reiterated its long-held support for a revenue benchmark that includes *all local, discretionary and access service*[2] revenues and outlined why this makes sense from economic and public policy standpoints. In short, the local exchange carrier ("LEC") that provides a dial-tone line to a customer not only captures basic service revenues therefrom but also has available to it a host of other revenue streams including those from custom calling features, local usage, and access services. As such, and as recognized by the Joint Board,[3] the universal service picture is incomplete without considering the totality of these revenues in addition to the forward-looking costs that a carrier incurs to provide universal service. To be economically efficient, the universal service mechanism *must* employ a revenue benchmark which considers all of the various revenue streams

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filing comments, DA 98-990, (rel. May 22, 1998).

[2] Comments of Ad Hoc Telecommunications Users Committee in CC Dkts. Nos. 96-45 and 97-160, DA 98-848 ("DA 98-848") (filed May 26, 1998) at 2.

[3] *Federal-State Joint Board on Universal Service*, CC Dkt. No. 96-45, Recommended Decision, 12 FCC Rcd 87 (1996), at ¶¶ 310-312.

associated with the dial-tone line. Failure to do so would result in an unnecessarily large universal service fund and trigger inappropriately high universal service payments to LECs serving high cost areas. At least initially, the incumbent LECs ("ILECs") would be the primary beneficiaries of the revenue windfall generated by an oversized universal service fund. This revenue windfall would pose an additional entry barrier to potential entrants in the local exchange service market and thereby thwart the 1996 Telecommunication Act's overriding goal of stimulating competition in the local exchange market.

Unfortunately, some of the ILECs submitting comments on the *Public Notice* ignored the Commission's request for comments on the appropriate *level* of the revenue benchmark and chose instead to reargue the merits of a revenue-based benchmark or to promote some other high-cost subsidy mechanism.[4] US West, for example, saw the Commission's *Notice* as yet another opportunity to promote its "Interstate High Cost Affordability Plan" ("IHCAP"), which is based on a two-tiered cost benchmark.[5] Likewise, GTE suggested that an auction-based mechanism was the best method available for allocating universal service funding and that when the Commission does adopt a benchmark it should adopt a cost, rather than revenue, benchmark.[6] These parties should not be allowed to

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4 Comments of US WEST Communications, Inc. in DA 98-848 (filed June 1, 1998) ("US WEST Comments") at 6; Comments of GTE Service Corporation in DA 98-848 (filed June 1, 1998) ("GTE Comments") at i, 26.

5 US West Comments at 6-8.

6 GTE Comments at i-ii.

divert attention from the Commission's request for focused comments on the appropriate *level* for a revenue benchmark.

Among those parties who did comment on the appropriate level for a revenue benchmark, a diversity of opinions was expressed. As a threshold matter, the Ad Hoc Committee agrees with AT&T's and MCI's position that "a universal service subsidy should be the minimum amount necessary to encourage carriers to serve high cost areas while maintaining affordable basic rates."[7] As stated above, the key to achieving a universal service mechanism that is sufficient without being excessive and thus market-distorting, is to set the revenue benchmark at a level that reflects all of the revenues that a carrier can expect when it provides basic local services to a customer. As AT&T and MCI correctly point out, a carrier that establishes a wireline connection to a customer makes that investment "on the basis of all expected revenues, including the expectation that the connection will provide an access delivery vehicle for future, and even currently nonexistent, revenue-producing services."[8] To include only basic service revenues in the revenue benchmark, as suggested by US West, the SBC LECs, USTA and Alliant Communications Co., is to ignore this basic reality and to create a windfall subsidy for carriers that are serving high-cost areas and enjoying revenues from custom calling features, access, intraLATA toll and other discretionary services *in addition to* basic service revenues.[9] AT&T

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7 Comments of AT&T Corp. and MCI Telecommunications Corporation in DA 98-848 (filed June 1, 1998) ("AT&T and MCI Comments") at 16.

8 *Id.*

9 US WEST Comments at 6; Comments of Southwestern Bell Telephone Company, Pacific Bell, and Nevada Bell in DA 98-848 (filed June 1, 1998) at ii; Comments of The United States

and MCI also point out, and the Ad Hoc Committee agrees, that recent merger activity among ILECs is one clear sign that ILECs expect that the future revenue potential from local network facilities will be much higher than current revenues.[10]

In its *Public Notice*, the Commission stated its belief that current cost proxy models "exclude the costs of switching and transport for intraLATA toll and interstate and access services" and it thus asked whether the models should be altered to include the incremental costs associated with the provision of these services.[11] The Commission's motivation in this regard was to ensure that the costs generated by the cost proxy models included all costs associated with the services to be included in the revenue benchmark -- *i.e.*, basic services, access services, discretionary services, intraLATA toll, *etc.* The Ad Hoc Committee understands that no such adjustment is warranted as the HAI Model includes the costs for providing these services. Indeed, AT&T Corp. -- a primary sponsor of the HAI Model -- noted in its comments that the HAI Model "*does* already compute and display all costs of providing access" as well as "many costs necessary for providing other services like Call Waiting, Caller ID, and other CLASS services" as those capabilities are built into the switches assumed by the model.[12]

Telephone Association in DA 98-848 (filed June 1, 1998) ("USTA Comments") at 4; Comments of Alliant Communications Co. in DA 98-848 (filed May 26, 1998) at 5.

10 *See* AT&T and MCI Comments at 17.

11 *See Public Notice* at 9.

12 *See* AT&T and MCI Comments at 18.

A number of ILECs made the interesting assertion that including access revenues in the revenue benchmark would amount to an implicit subsidy and thereby contravene the Telecommunications Act's requirement that implicit universal service subsidies be made explicit.[13] For example, the Sprint Local Telephone Companies noted that the Commission has rightly recognized that access charges are above costs; however, including access costs in the revenue benchmark "would do nothing more than perpetuate an implicit subsidy - which is exactly what the Telecommunications Act of 1996 is trying to eradicate."[14] The Ad Hoc Committee respectfully disagrees with this characterization of access charges and their appropriate role in a universal service subsidy mechanism. Although the totality of access charges collected are currently substantially in excess of the costs of providing access, the Commission's *Access Charge Reform* Order had the effect of making the previously implicit subsidy more *explicit* - primarily through the initiation of the Primary Interexchange Carrier Charge (PICC). The revenues associated with the PICC and any remaining Transport Interconnection Charge (TICs) and Carrier Common Line Charges (CCLCs) that have yet to be transitioned into the PICC are clearly *explicit* subsidy elements, and the subscriber line charges (SLCs) contribute to basic service elements almost by definition. Exclusion of these revenues from the determination of universal service needs is counterintuitive. Ad Hoc agrees that the Commission can and should encourage rate rebalancing. However, leaving

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13 GTE Comments at 27-29; Comments of Sprint Local Telephone Companies in DA 98-848 (filed June 1, 1998) ("Sprint Comments") at 5; USTA Comments at 4.

14 *See* Sprint Comments at 5.

access revenues out of the revenue benchmark, as suggested by several of the ILECs, would reward those carriers that have not endeavored to rebalance their rates and punish those that have by allocating a smaller portion of the high cost subsidy to them.

In conclusion, the Ad Hoc Committee concurs with Ameritech Corporation, MCI, and AT&T that revenues from access and intraLATA toll should be included in the revenue benchmark.[15] Indeed, given that economic efficiency is best served by a revenue benchmark that includes *all* revenues from local, discretionary and access services, Ad Hoc agrees with AT&T and MCI that the $31/$51 benchmarks established by the Commission may be too low.[16] If, as US West, SBC and USTA argue, the excess contribution generated by access services is not to be included in the revenue benchmark, then the Commission should, concurrently with the adoption of the new USF rules, *eliminate those access service elements that are generating contribution in excess of cost -- specifically the PICC, TIC, and any remaining CCLCs.* If the PICC, TIC and

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15 *See* Comments of Ameritech in DA 98-848 (filed June 1, 1998) at 5-6; AT&T and MCI Comments at 6-18.

16 *See* AT&T and MCI Comments at 17.

CCLC are not contributing to the maintenance of universal service, then they have no function at all.

Respectfully submitted,

AD HOC TELECOMMUNICATIONS USERS COMMITTEE

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Certificate of Service

I, Andrew Baer, hereby certify that true and correct copies of the preceding Reply Comments of the Ad Hoc Telecommunications Users Committee in CC Docket Numbers 96-45 and 97-160 and DA 98-848, were served this 12th day of June, 1998 via hand delivery upon the following.

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